Report

of the

Examination of

Wisconsin Reinsurance Corporation

Madison, Wisconsin

As of December 31, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Jorge Gomez, *Commissioner*

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January 26, 2004

Honorable Jorge Gomez
Commissioner of Insurance
125 S. Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

WISCONSIN REINSURANCE CORPORATION
MADISON, WISCONSIN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin Reinsurance Corporation (“WRC,” or “the company”) was conducted in 1999 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

Wisconsin Reinsurance Corporation is a Wisconsin domiciled property and casualty insurance company. The present-day company is the successor to an unincorporated association of town mutual insurers which was initially organized in 1942 under the name Mutual Spread Loss Association ("MSLA"). MSLA served as a reinsurance mechanism, whereby each member insurer ceded excess loss risks and participated in pooled reinsurance assumption.

MSLA was dissolved, and effective December 15, 1972, the company was incorporated in Wisconsin as a mutual reinsurance company under the name Mutual Spread Loss Reinsurance, Inc. ("MSLR"). Ownership and control of MSLR was exercised by its member town mutual insurers, and MSLR operated as a reinsurer of risks written by the member insurers. Effective December 31, 1982, Wisconsin Town Mutual Reinsurance Company ("WTMRC") was merged into MSLR. WTMRC was originally incorporated in November 1931, and at the time of its merger into MSLR was licensed as a town mutual reinsurer under ch. 612, Wis. Stat. The mutual reinsurer, MSLR, was the surviving entity following the 1982 merger; subsequent to the merger, the company changed its name to Wisconsin Reinsurance Corporation (Mutual) ("WRC-Mutual"). The company remained a mutual corporation for nine years following the merger, operating as an assessable mutual insurer through December 31, 1990.

During 1990 and 1991, WRC-Mutual demutualized and converted to a stock insurance company as permitted under s. 611.76, Wis. Stat. The statute provides that a domestic mutual insurer may convert to a stock company, and provides that the policyholders of a converted mutual insurer are entitled to an equitable share of the capital stock of the new stock corporation upon conversion. The policyholders of WRC-Mutual were primarily town mutual insurance companies, which are subject to administrative restrictions regarding permitted investment in common stock assets. To enable the conversion of WRC-Mutual to a stock company and the issuance of WRC capital stock to town mutual policyholders of WRC-Mutual, this office issued an order that authorizes town mutual insurers to hold the common stock of the converted WRC-Mutual, and to report the entire amount as admitted assets, subject to certain conditions and restrictions.

WRC-Mutual converted to a stock insurance company effective January 1, 1991. Upon conversion, WRC-Mutual's December 31, 1990, surplus of $4,638,485 was distributed to its members by issuing 309,665 shares of Class A common capital stock having a book value of $14.98 per share. The converted stock corporation amended its name to Wisconsin Reinsurance Corporation ("WRC"), the name presently used by the company. The company is owned by approximately 70 small mutual insurers domiciled in Wisconsin, who are also long-term reinsurance clients of the company. A small number of natural persons are also shareholders, because they purchased personal umbrella liability policies from the company in the five years prior to the conversion.

During 1991, WRC obtained capital funds of $6,395,000 through the sale of Series A convertible preferred stock to WRC common stock shareholders, and used the proceeds to capitalize and incorporate 1st Auto & Casualty Insurance Company ("1st Auto") as an insurance company subsidiary. 1st Auto commenced operations in September 1991. In 1997, WRC obtained an additional $3,225,000 of capital funds from the sale of Series B cumulative preferred stock to WRC common stock shareholders. The company contributed $2,000,000 of the proceeds from its 1997 preferred stock issuance to 1st Auto.

WRC is licensed as a reinsurer in Wisconsin and Iowa, and is recognized as an authorized reinsurer in South Dakota and Arkansas. The company wrote the following premiums net of commissions during 2002:

Wisconsin	$26,747,231	84.0%
Arkansas	1,997,412	6.3%
Iowa	1,905,271	6.0%
South Dakota	1,186,697	3.7%
Total	$31,836,611	100.0%

WRC's primary business is the reinsurance of property and non-property liability risks written on a direct basis by small mutual insurance companies. The company's reinsurance clients are typically small insurers that write direct coverages primarily to rural and small town market segments, and who focus on farmowner and homeowner property insurance business. The reinsurance products written by the company include pro rata quota share and excess of loss contracts on both property and casualty risks as well as aggregate excess and catastrophe coverages. Business lines reinsured by the company include fire & allied lines, homeowner and farmowner, limited commercial property and liability, and limited workers compensation policies. WRC reinsurance products are marketed through the efforts of the company's president and its marketing director.

The company is subject to a regulatory accounting permitted practice established in 2000 with the approval of the Wisconsin Commissioner of Insurance. The permitted practice allows the company to delay recording a liability for "Reinsurance payable on paid losses" until a payable claim has been outstanding for 90 days, following notification of a loss from the ceding company. The practice allows such liability to remain in the company's "Loss reserve" account for the 90 day period. The practice was allowed by the Commissioner because WRC has manual loss reserve and reinsurance accounting systems. The company routinely pays such claims within 30 to 60 days, and by virtue of the permitted practice, the company is spared having to review records in its manual reinsurance system and reclassify individual loss balances as "Reinsurance payable on paid losses".

The following table provides a summary of the gross and net insurance premiums written by the company in 2002. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire		$ 6,182,273	$1,812,166	$ 4,370,107
Allied Lines		6,182,273	1,812,166	4,370,107
Workers' compensation		$32,606	$10,000	$22,606
Other liability - occurrence		38,744	35,838	2,906
Reinsurance - non-proportional assumed property		14,110,014	2,848,982	11,261,032
Reinsurance - non-proportional assumed liability	$0	8,116,601	1,029,152	7,087,449
Total All Lines	$0	$34,662,511	$7,548,304	$27,114,207

III. MANAGEMENT AND CONTROL

Board of Directors

The WRC board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Company officers are elected at the board's annual meeting. The Chairman of the Board is paid an annual retainer fee of $7,500, and the secretary is paid an annual retainer of $2,400. All of the other board members are paid an annual retainer of $1,800. Directors receive a per diem of $100 for each board or committee meeting attended.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Larry Bray Elkhorn, WI	Manager and CEO Sugar Creek Mutual Insurance Company	2004
Lee J. Fuhrman Racine, WI	Secretary and Business Manager Racine County Mutual Insurance Company	2004
George A. Tipler Oshkosh, WI	Secretary and Business Manager Homestead Mutual Insurance Company	2004
Steven K. Hagen Evansville, WI	Secretary and Business Manager Union Mutual Fire Insurance Company	2005
Sue Monday West Bend, WI	Secretary and Treasurer Moraine Mutual Insurance Company	2005
James F. Whittaker Chilton, WI	Secretary and Business Manager Calumet-Equity Mutual Insurance Company	2005
David L. Asenbrenner Clintonville, WI	Secretary and Treasurer Pella Mutual Insurance Company	2006
Ellen D. Koxlien Whitehall, WI	Secretary and Business Manager West Central Mutual Insurance Company	2006
John A. Rittenhouse Willard, WI	Secretary and Treasurer Eagle Point Mutual Insurance Company	2006

Officers of the Company

Wisconsin Reinsurance Corporation officers serving at the time of this examination are as follows:

Name	Office	2002 Compensation
Stephen K. Hagen	Chairman of the Board of Directors	$8,500 *
George A. Tipler	Vice Chairman of the Board of Directors	2,900 *
Lee J. Furhman	Secretary	3,300 *
James F. Whitaker	Treasurer	2,800 *
Terry H. Wendorff	President and CEO	157,544 *
Cathleen R. Kazmierczak	Senior Vice President Internal Operations	94,011 *
Larry E. Moe	Senior Vice President Reinsurance Operations	81,981 *
Peggy L. Mickelson	Vice President Administration and Assistant Secretary	53,913 *
Todd J. Lentz	Vice President Finance and Assistant Treasurer	75,182 *
Charles R. Scadden	Vice President Marketing	49,547 *

* Each officer of WRC is an employee of WRC, and WRC remits all annual compensation paid to those individuals. A portion of the annual compensation paid by WRC to its employees, including WRC officers, is allocated to WRC subsidiary companies pursuant to affiliated services agreements. Allocations are based on analysis of the proportion of an individual's work responsibilities that apply to the respective affiliates. The compensation data reported above reflect total annual compensation remitted by WRC to the respective WRC officer, and is not adjusted to reflect WRC's ultimate employment expense net of allocations to affiliates.

Committees of the Board

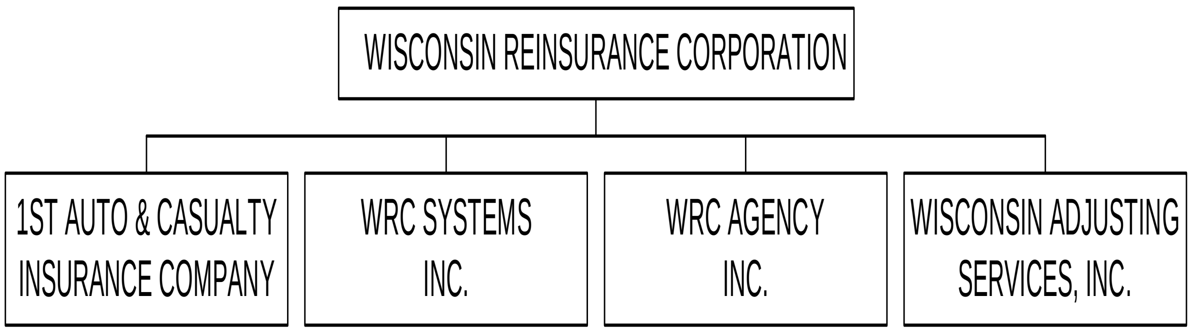
The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Nominating Committee
Sue Monday, Chair
Lee J. Fuhrman
James F. Whittaker

IV. AFFILIATED COMPANIES

Wisconsin Reinsurance Corporation is the ultimate parent of a holding company system. The organizational chart below depicts the organizational relationships among the affiliates in the group. A brief description of the significant affiliates and significant agreements among affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2002



1st Auto & Casualty Insurance Company ("1st Auto")

1st Auto & Casualty Insurance Company is a Wisconsin-domiciled stock property and casualty insurer. 1st Auto is a direct writer of personal lines property and casualty insurance, primarily private passenger automobile liability and physical damage insurance, and some workers compensation. Current underwriting restrictions limit new business to those policies issued in conjunction with a WRC client-company policy.

As of December 31, 2002, the statutory basis audited financial statements of 1st Auto reported net admitted assets of $22,930,929, liabilities of $17,931,871, and capital and surplus of $4,999,058. Operations for 2002 resulted in a net loss of $1,166,935. 1st Auto is the subject of a separate examination report concurrent with that of WRC.

WRC Systems, Inc.

WRC Systems, Inc., provides computer hardware, computer software, and system support services to insurers, primarily to town mutual insurers that are WRC reinsurance client companies. As of December 31, 2002, the unaudited GAAP-basis financial statement of WRC Systems, Inc., reported total assets of $105,541, liabilities of $67,185, and net equity of $38,356. Operations for 2002 produced a net loss of $37,047.

WRC Agency, Inc.

WRC Agency, Inc., provides insurance brokerage services through which agents of WRC client companies may place coverages for lines of insurance that the client companies are unable to offer as a direct insurer. As of December 31, 2002, the GAAP-basis unaudited financial statements of WRC Agency, Inc., reported total assets and total liabilities $22,980 and net owner's equity of $0. Operations for 2002 resulted in net income of $0.

Wisconsin Adjusting Service, Inc. ("WASI")

Wisconsin Adjusting Service, Inc., provides loss adjustment services related to liability claims for WRC and its client companies. Services provided to WRC are provided pursuant to an administrative services agreement. As of December 31, 2002, the unaudited GAAP basis financial statements of WASI reported total assets and total liabilities of $90,586 and net owner's equity of $0. Operations for 2002 resulted in net income of $0, as all expenses of WASI are 100% reimbursed by WRC.

Agreements with Affiliates

Administrative Service Agreements

WRC maintains separate administrative services agreements with each of its subsidiaries. Each agreement was executed January 1, 1993, and is continuous with respect to automatic annual renewals. Pursuant to the agreements, WRC provides accounting, data processing, marketing, receptionist, secretarial, and all other administrative services necessary for the respective affiliates to conduct their normal business operations. WRC accounts for the time spent by its employees on behalf of the respective affiliates in providing administrative services. Pursuant to the agreements, WRC costs allocated to the affiliates and WRC direct expenses on behalf of the respective affiliates are reimbursed by the affiliates.

Office Lease Agreements

WRC maintains separate office lease agreements with each of its affiliates. The agreements provide for lease of office space in the WRC headquarters building, and the agreements are identical except for their respective specifications of leased WRC space and applicable annual rents. Premises leased to the affiliates range from 128 square feet leased to WRC Systems, Inc., to 5,035 square feet leased to 1st Auto, and annual rents range from $1,920 paid by WRC Systems, Inc., to $75,525 paid by 1st Auto. The agreements provide that WRC pays for maintenance and upkeep of the leased spaces and for utility services, excluding telephone.

Consolidated Federal Income Tax Agreement

WRC and each of its affiliates are party to a consolidated Federal income tax agreement. The agreement provides that WRC will file a consolidated Federal tax return for all parties to the agreement. The method used for allocation of Federal taxes among the agreement participants is as prescribed by Internal Revenue Service, and any regular tax liability of participants will be allocated based on the individual taxable income of each participant in proportion to the total consolidated taxable income. In the event that alternative minimum tax is applicable on the consolidated basis, the AMT liability will be allocated based on the effect on the total consolidated AMT by excluding the individual participant's contribution to the total consolidated tax. Final settlement of tax allocation will be paid by the respective participants within 90 days of filing of the consolidated Federal tax return.

V. REINSURANCE

Wisconsin Reinsurance Corporation's reinsurance portfolio and strategy are described below. The company acquires all of its business through reinsurance assumption of risks written by unaffiliated mutual insurers and by the company's subsidiary, 1st Auto, and the company cedes portions of its written business to third party reinsurers for risk management purposes and to mitigate risk in the event of catastrophic loss. The company's reinsurance contracts contain proper insolvency provisions.

Nonaffiliated Assumption Contracts

The following is a summary of the company's nonaffiliated assumption reinsurance contracts. The ceding insurers include town mutual, farm mutual, or unrestricted mutual insurance companies domiciled in Wisconsin, Arkansas, Iowa and South Dakota. Unless otherwise noted, the reinsured company is a town mutual insurer, the effective date of the reinsurance agreement is January 1, 2002, and the agreement may be terminated by any January 1, by either party providing at least 90 days' prior written notice.

1. Type: Class A - 100% Quota Share Reinsurance
   Number of Contracts: 28

   Scope: All nonproperty business written by cedant(s)

   Coverage: 100% each and every loss, including loss adjustment expense, subject to town mutual policy maximums of $500,000 per occurrence, $5,000 per person medical, and $25,000 all persons medical

   Premium: 100% of net written premium

   Commissions: Varies by contract, ranging from 15% to 30%

2. Type: Class A - Excess of Loss Reinsurance
   Number of Contracts: 55

   Scope: All nonproperty business written by cedant(s)

   Retention: Varies by contract, generally ranging from $500 to $10,000 per occurrence

   Coverage: 100% each and every loss including loss adjustment expense in excess of the ceding company's retention, subject to town mutual policy maximums of $1,000,000 per occurrence, $5,000 per person medical, and $25,000 all persons medical

   Premium: Varies by contract, generally ranging from 50% to 75% of premium written

3. Type:	Class A - Umbrella Liability Combination Quota Share and Excess of Loss Number of Contracts: 1	
Scope:	Umbrella liability	
Retention:	Part A - 5% of the first $1,000,000 Part B - $1,000,000 per occurrence	
Coverage:	Part A - 95% Quota Share of the first $1,000,000 Part B - 100% of $1,000,000 in excess of Part A	
Premium:	95% of earned premium	

4. Type:	Class B - First Surplus Reinsurance Number of Contracts: 86
Scope:	All property business written by cedant(s)
Retention:	Pro rata according to the individual risk cession, minimum retention varies by contract, with an average of $200,000
Coverage:	Pro rata according to the individual risk cession; Automatic cession per risk of $800,000
Premium:	Pro rata according to the individual risk cession
Commissions:	Sliding scale, typically ranging between 15% and 35% based on loss ratios between 65% and 45% with a provisional commission of 15%

5. Type:	Class B-2 - Combination Quota Share and Excess of Loss Reinsurance Number of Contracts: 5
Scope:	All property business written by cedant(s)
Retention:	Pro rata portion underlying the excess of loss retention. Quota share percentages and excess of loss retentions vary by contract. Annual aggregate and additional per loss retentions often apply.
Coverage:	Pro rata portion of the ceding company's excess of loss retention plus 100% in excess of the ceding company's retention up to contracted maximums
Premium:	Varies by contract based on overall retention and loss history
Commissions:	Varies by contract, typically 18% minimum paid on provisional basis with sliding scale adjustments to 35% based on loss ratios less than 62%

6. Type: Class C-1 - Excess of Loss First Layer Reinsurance
Number of Contracts: 83

Scope: All property business written by cedant(s)

Retention: Varies by contract. This contract and/or other Class C contracts and/or Class B-2 typically underlie the retention of Class B - First Surplus.

Coverage: 100% of each loss in excess of the ceding company's retention up to maximums established by individual contracts

Premium: Formula rated with minimum and maximum rates. Final rate is based on individual ceding company experience over the four prior years, not including the most recent year.

7. Type: Classes C-2 - Excess of Loss Second Layer Reinsurance
Number of Contracts: 79

Scope: All property business written by cedant(s)

Retention: Varies by contract. This contract and/or other Class C contracts and/or Class B-2 typically underlie the retention of Class B - First Surplus.

Coverage: 100% of each loss in excess of the ceding company's retention up to maximums established by individual contracts

Premium: Flat rated based on coverage and overall WRC experience

8. Type: Classes C-3 - Excess of Loss Third Layer Reinsurance
Number of Contracts: 6

Scope: All property business written by cedant(s)

Retention: Varies by contract. This contract and/or other Class C contracts and/or Class B-2 typically underlie the retention of Class B - First Surplus.

Coverage: 100% of each loss in excess of the ceding company's retention up to maximums established by individual contracts

Premium: Flat rated based on coverage and overall WRC experience

9. Type: Class A/C-1 - Excess of Loss First Layer Reinsurance
Number of Contracts: 1

Scope: All lines

Retention: Varies by contract and property versus nonproperty

Coverage: 100% of each loss in excess of the ceding company's retention up to maximums established by individual contracts

Premium: Formula rated with minimum and maximum rates. Final rate is based on individual ceding company experience over a six-year period.

10. Type: Class A/C-2 - Excess of Loss Second Layer Reinsurance
Number of Contracts: 1

Scope: All lines

Retention: Varies by contract and property versus nonproperty

Coverage: 100% of each loss in excess of the Class A/C-1 retention up to maximums established by individual contracts

Premium: Flat rated based on coverage and individual ceding company experience

11. Type: Class D/E - Aggregate Stop Loss Reinsurance
Number of Contracts: 63

Scope: Varies by contract. All contracts cover property business written by cedant(s). A majority of contracts also include nonproperty business.

Retention: Aggregate losses, expressed as a percentage of net premiums written, which varies by contract, typically 65%

Coverage: 100% of the amount in excess of the above retention

Premium: Formula rated with minimum and maximum rates. Final rate is based on individual ceding company experience over the eight prior years, not including the most recent year.

12. Type: Class D/E - Catastrophe and Stop Loss Reinsurance
Number of Contracts: 16

Scope: Part A – Catastrophe Coverage - All property business written by cedant(s)
Part B – Stop Loss Coverage – All business written by cedant(s)

Retention: Part A - Catastrophe Coverage - Varies by contract, ranging from $75,000 to $300,000

Part B – Stop Loss Coverage – Varies by contract, ranging from 62.5 to 150.0% of the company's net premiums written

Coverage: Part A – Catastrophe Coverage - 100% of a loss occurrence in excess of the stated retention up to a limit, generally $250,000, directly occasioned by one accident, disaster or series of accidents, disasters arising out of one event. The duration of a loss occurrence resulting from one atmospheric event (tornado, windstorm, and hail) is limited to a period of 72 consecutive hours. The duration of other loss occurrences, including earthquake and freeze, is limited to a period of 168 consecutive hours.

Part B – Stop Loss Coverage - 100% of the amount in excess of the above retention

Premium: Formula rated with minimum and maximum rates. Final rate is based on individual ceding company experience over the eight prior years, not including the most recent year.

13. Type:	Class D/E-1 – First Layer Stop Loss Reinsurance Number of Contracts: 9	
Scope:	All property business written by cedant(s) for risks located in Iowa	
Retention:	65.0% of Net Premium Written	
Coverage:	100% of 15% excess of 65% of NPW	
Premium:	Formula rated with minimum and maximum rates. Final rate is based on individual ceding company experience over the eight prior years, not including the most recent year.	
14. Type:	Class D/E-2 – Second Layer Stop Loss Reinsurance Number of Contracts: 8	
Scope:	All property business written by cedant(s) for risks located in Iowa	
Retention:	80.0% of NPW	
Coverage:	100% of 120% excess of 80% of NPW	
Premium:	Flat rated based on coverage and overall WRC experience	
15. Type:	Class D/E-3 – Third Layer Stop Loss Reinsurance Number of Contracts: 5	
Scope:	All property business written by cedant(s) for risks located in Iowa	
Retention:	200% of NPW	
Coverage:	100% excess of 200% of NPW	
Premium:	Flat rated based on coverage and overall WRC experience	
16. Type:	Excess of Loss Reinsurance	
Reinsured	Policyholders Mutual Insurance Company	
Participation:	Wisconsin Reinsurance Corporation Grinnell Mutual Insurance Company	66.5% 33.5
Scope:	Liability resulting from the Wisconsin Town Mutual Policyholder Protection Group Insurance Policy issued to members of The Wisconsin Association of Mutual Insurance Companies, Inc.	
Retention:	$1,000,000 of aggregate loss and loss adjustment expenses per contract year	
Coverage:	$5,000,000 in excess of $1,000,000	
Premium:	$5,000	

Effective date:	January 1, 1989
Termination:	As of any January 1, by either party giving 90 days’ prior written notice

17.

Type:	Property Quota Share Reinsurance
Reinsured	Agents Mutual Insurance Company (AR)
Scope:	All property business, limited to policy coverages of up to $100,000
Retention:	20% of loss each loss occurrence
Coverage:	80% of loss each loss occurrence
Commission:	Sliding scale, typically ranging between 25% and 35% based on loss ratios between 60% and 50% with a provisional commission of 30%
Effective date:	January 1, 2002
Termination:	As of any January 1, by either party giving 60 days' prior written notice

18.

Type:	Liability Quota Share Reinsurance
Reinsured	Agents Mutual Insurance Company (AR)
Scope:	All liability business, limited to policy coverage of up to $100,000
Retention:	10% quota share of loss each loss occurrence
Coverage:	90% quota share of loss each loss occurrence
Commission:	30.0% on all liability business ceded
Effective date:	January 1, 2002
Termination:	As of any January 1, by either party giving 60 days' prior written notice

Affiliated Assumption Contracts

The following is a summary of the company's affiliated assumption reinsurance contracts with its subsidiary, 1st Auto & Casualty Insurance Company. The company assumes a portion of the business written by 1st Auto primarily so as to participate in the potential profitability of the business written by the subsidiary.

1.	Type:	Underlying Automobile Aggregate Excess of Loss Reinsurance
	Reinsured:	1st Auto & Casualty Insurance Company
	Scope:	The excess liability under policies issued by 1st Auto for business classified as Automobile insurance
	Retention:	Ultimate net loss equal to 80% of 1st Auto's net earned premium for the calendar year
	Coverage:	Ultimate net loss for the calendar year in excess of 80% of 1st Auto's net earned premium for the calendar year, reinsurer's liability limited to the greater of $600,000 or 5% of 1st Auto's net earned premium in the calendar year
	Warranty:	Reinsured warrants that maximum policy limits are $500,000 Bodily Injury Liability each person each occurrence, and $250,000 Property Damage Liability each occurrence
	Premium:	For the calendar year, the greater of $240,000 or 1.70% of net earned premium for the subject business in the calendar year, annual deposit premium $300,000
	Effective Date:	January 1, 2003
	Termination:	As of any December 31, by the reinsured giving 90 days prior notice
2.	Type:	Automobile Liability Excess of Loss Reinsurance
	Reinsured:	1st Auto & Casualty Insurance Company
	Scope:	The excess liability under policies issued by 1st Auto for business classified as Automobile Liability insurance
	Retention:	100% of $150,000 ultimate net loss each loss occurrence
	Coverage:	100% of ultimate net loss in excess of $150,000 each loss occurrence; reinsurer liability limited to $50,000 each loss occurrence. In the event that all or any portion of the reinsurance provided under this agreement is exhausted by loss, the amount so exhausted will be reinstated immediately from the time the loss occurrence commences under this treaty. Reinstatements will be unlimited in number and will apply to all loss occurrences commencing during the period this contract is in force.

Warranty: Reinsured warrants that maximum policy limits are $500,000 Bodily Injury Liability each person each occurrence, and $250,000 Property Damage Liability each occurrence

Premium: 3.0% of net earned premium on subject business for the calendar year, annual minimum premium $200,000, annual deposit premium $300,000

Effective date: January 1, 2003

Termination: As of any December 31, by the reinsured giving 90 days prior notice

3. Type: Auto Physical Damage Catastrophe Excess Reinsurance

Reinsured: 1st Auto & Casualty Insurance Company

Scope: The excess liability under policies issued by 1st Auto for business classified as Automobile Physical Damage insurance

Retention: $150,000 of ultimate net loss liability each loss occurrence

Coverage: 100% of ultimate net loss in excess of $150,000 each loss occurrence; reinsurer liability limited to 100% of $400,000 each loss occurrence. In the event that all or any portion of the reinsurance provided under this agreement is exhausted by loss, the amount so exhausted will be reinstated immediately from the time the loss occurrence commences under this treaty.

Premium: 2.5% of net earned premium on subject business for the calendar year, minimum annual and deposit premium $250,000

Effective date: January 1, 2003

Termination: As of any December 31, by either party giving 90 days prior notice

4. Type: Workers Compensation and Employers Liability Excess of Loss Reinsurance

Reinsured: 1st Auto & Casualty Insurance Company

Scope: The excess liability under policies issued by 1st Auto for business classified as Workers' Compensation insurance (written on a voluntary basis) and Employer's Liability insurance with regard to bodily injury by accident incurred during the calendar year or bodily injury by disease caused or aggravated by the conditions of employment incurred during the contract year

Retention: $10,000 of ultimate net loss each loss occurrence

Coverage: 100% of ultimate net loss in excess of $10,000 each loss occurrence, reinsurer liability limited to 100% of $40,000 each loss occurrence. In the event that all or any portion of the reinsurance provided under this agreement is exhausted by loss, the amount so exhausted will be reinstated immediately from the time the loss occurrence commences under this treaty. There will be not additional premium charged for any such reinstatement of coverage. Reinstatements will be unlimited in number and apply to all loss occurrences commencing during the period the contract is in force.

Warranty:	Reinsured warrants that maximum policy limits are $1,000,000 for Employer's Liability business.
Premium:	For the calendar year, the greater of $50,000 or 26.25% of the net earned Workers' Compensation premium for the calendar year, annual deposit premium $50,000
Effective date:	January 1, 2003
Termination:	As of any December 31, by either party giving 90 days prior notice

Nonaffiliated Ceding Contracts

The following is a summary of the company's nonaffiliated ceding reinsurance contracts. The company cedes portions of its written business to third party reinsurers for risk management purposes and to mitigate risk in the event of catastrophic loss.

1.	Type:	Automobile Aggregate Excess of Loss Reinsurance	
	Reinsurers:	Platinum Underwriters Reinsurance, Inc. SCOR Reinsurance Company	45% 45%
	Reinsured:	1st Auto Property and Casualty Insurance Company and Wisconsin Reinsurance Corporation	
	Scope:	All business classified by the company as Automobile	
	Retention:	85% of the company's Gross Net Earned Premium Income ("GNEPI")	
	Coverage:	100% of net retained liability of the company in excess of company retention. Reinsurance annual aggregate limit equal to 95% of the greater of 20% of the company's GNEPI or $2,857,600 in the aggregate for each annual period the agreement is in effect	
	Premium:	2.96% of subject premium written, minimum annual premium $444,800, annual deposit premium $556,000	
	Effective date:	January 1, 2003	
	Termination:	As of any December 31, by either party giving 90 days advance notice	
	Status:	Business ceded by the WRC companies under this treaty is currently limited to risks ceded by 1st Auto, and WRC does not cede business under the treaty. The treaty provides to WRC a reinsurance facility for the possible cession of automobile risks that the company could potentially assume in the future from one or more unaffiliated direct writers of automobile risks.	

2. Type: Catastrophe Excess of Loss Reinsurance

Reinsurers: Reinsurer (see Addenda) Excess Layers and Reinsurer Participation

Reinsured Wisconsin Reinsurance Corporation

Scope: Business classified by the company as Property reinsurance assumed by the company. Business consists of Homeowners, Farmowners, Fire and Allied Lines, and Light Commercial policies including earthquake, issued by Wisconsin Town Mutual Insurance Companies and other mutual insurance companies as agreed by the reinsurer as well as farm mutual insurance companies in Arkansas, South Dakota and Iowa.

The agreement also includes Property business produced by 1st Auto and assumed by WRC through the Auto Physical Damage Catastrophe Excess Contract between WRC and 1st Auto. The agreement also includes business assumed by the company through Vision Reinsurance Intermediaries, Inc.

	First Excess	Second Excess	Third Excess	Fourth Excess
Company Retention	$3,000,000	$10,000,000	$20,000,000	$40,000,000
Reinsurer's Limit Per Occurrence	7,000,000	10,000,000	20,000,000	10,000,000
Reinsurer's Annual Limit	14,000,000	20,000,000	40,000,000	20,000,000
Contract Term Minimum Premium	2,142,170	916,320	585,000	156,000
Contract Term Deposit Premium	2,677,712	1,145,400	731,248	195,000
Premium Rate	10.990%	4.701%	3.001%	.800%
Quarterly Deposit Premium	669,428	286,350	182,812	48,750

Reinstatement: All layers are subject to one full reinstatement at pro rata additional premium as to amount reinstated and 100% as to time

Effective date: January 1, 2003

Termination: December 31, 2003 as respects all losses occurring during the term of the Agreement

3. Type: First Multiple Line Excess of Loss Reinsurance

Reinsurers: Scor Reinsurance Company 50.0%
Platinum Underwriters Reinsurance, Inc. 50.0%

Reinsured: 1st Auto Property and Casualty Insurance Company and Wisconsin Reinsurance Corporation

Scope: Business classified by the company as Property Reinsurance assumed by the company for Class B – Pro Rata and Class C – Excess Per Risk, and business classified by the company as Casualty Reinsurance assumed for Class A – Casualty. The agreement also covers workers compensation and net umbrella risks assumed by WRC.

With respect to 1st Auto, the contract also includes business classified by the company as direct and assumed Workers Compensation/Employers Liability business, net retained Umbrella Liability business, and Automobile Liability business written directly by 1st Auto.

Retention:

A. Property
100% of $200,000 ultimate net loss each risk, each loss

B. Casualty Other than Workers Compensation
100% of $200,000 ultimate net loss each loss occurrence

C. Workers Compensation
100% of $50,000 ultimate net loss each loss occurrence

D. Combined Property, Casualty, Net Umbrella, and Workers Compensation
100% of $200,000 loss liability for combined coverages each loss occurrence. For losses involving coverages of A, B, and/or C, recoveries made under the coverages A, B, and C will inure to the benefit of the reinsurance provided under D.

Coverage:

A. Property
100% of $100,000 excess of $200,000 ultimate net loss each risk, each loss. Reinsurance limit $300,000 any one loss occurrence

B. Casualty Other than Workers Compensation
100% of $100,000 excess of $200,000 ultimate net loss each loss occurrence

C. Workers Compensation
100% of $250,000 excess of $50,000 ultimate net loss each loss occurrence

D. Combined Property, Casualty, Net Umbrella, and Workers Compensation
100% of $200,000 loss liability each loss occurrence for combined coverages. For losses involving coverages of A, B, and/or C, recoveries made under the coverages A, B, and C will inure to the benefit of the reinsurance provided under D.

Warranty: The company warrants that it will maintain a 92.5% Quota Share Reinsurance and $3,000,000 excess of $2,000,000 Excess of Loss Reinsurance contract for Umbrella Liability, and that such reinsurance shall inure to the benefit of the First Multiple Line Excess of Loss reinsurer.

Premium: 3.91% GNEPI, adjusted annually. Minimum annual premium $1,155,984, annual deposit premium $1,444,980. Year-end adjustment as soon as possible at the end of the agreement year

Effective date: January 1, 2003

Termination: As of any December 31, by either party giving 90 days prior notice

4. Type: Second Multiple Line Excess of Loss Reinsurance

Reinsurers:	Platinum Underwriters Reinsurance, Inc	50%
	SCOR Reinsurance Company	50%

Reinsured: 1st Auto Property and Casualty Insurance Company and Wisconsin Reinsurance Corporation

Scope: Business classified by the company as Property Reinsurance assumed by the company for Class B – Pro Rata and Class C – Excess Per Risk, and business classified by the company as Casualty Reinsurance assumed for Class A – Casualty

The contract also includes business classified by the company as direct and assumed Workers Compensation/Employers Liability business, net retained Umbrella Liability business, and Automobile Liability business written directly by 1st Auto.

Retention: Property
100% of $300,000 ultimate net loss each risk each loss

Casualty (including workers compensation)
100% of $300,000 ultimate net loss each loss occurrence

Coverage: Property
100% of $700,000 excess of $300,000 ultimate net loss each risk each loss. Reinsurance limit $1,400,000 any one loss occurrence

Casualty (including workers compensation)
100% of $700,000 excess of $300,000 of ultimate net loss each loss occurrence

Premium: 3.01% GNEPI, adjusted annually. Minimum annual premium $889,900, annual deposit premium $1,112,376. Year-end adjustment as soon as possible at the end of the agreement year

Effective date: January 1, 2003

Termination: As of any December 31, by either party giving 90 days prior notice

5. Type: Third Multiple Line Excess of Loss Reinsurance

Reinsurers:	Scor Reinsurance Company	50%
	Platinum Underwriters Reinsurance, Inc	50%

Reinsured: 1st Auto Property and Casualty Insurance Company and Wisconsin Reinsurance Corporation

Scope: Business classified by the company as Property Reinsurance assumed by the company for Class B – Pro Rata and Class C – Excess Per Risk, and business classified by the company as Casualty Reinsurance assumed for Class A – Casualty

The contract also includes business classified by the company as direct and assumed Workers Compensation/Employers Liability business, net retained Umbrella Liability business, and Automobile Liability business written directly by 1st Auto and Casualty.

Retention:	Property $1,000,000 of ultimate net loss each risk, each loss Casualty/Clash $1,000,000 of ultimate net loss each loss occurrence Workers Compensation $1,000,000 of ultimate net loss each loss occurrence
Coverage	Property $3,000,000 excess of $1,000,000 ultimate net loss each risk, each loss. Reinsurance limit $6,000,000 any one loss occurrence and in annual aggregate Casualty/Clash 100% of $1,500,000 excess of $1,000,000 ultimate net loss each loss occurrence. Reinsurance annual aggregate limit $3,000,000 Workers Compensation 100% of $4,000,000 excess of $1,000,000 ultimate net loss each loss occurrence. Reinsurance annual aggregate limit $8,000,000
Premium:	1.09% GNEPI, adjusted annually. Minimum annual premium $323,200, annual deposit premium $404,000. Year-end adjustment as soon as possible at the end of the agreement year
Effective date:	January 1, 2003
Termination:	As of any December 31, by either party giving 90 days prior

6\. Type: Workers Compensation and Employers Liability Excess of Loss

Reinsurers:	Platinum Underwriters Reinsurance, Inc.	50%
	SCOR Reinsurance Company	50%
Reinsured:	1st Auto Property and Casualty Insurance Company and Wisconsin Reinsurance Corporation	
Scope:	Business classified by the company as Workers Compensation and Employers Liability	
Retention:	100% of $5,000,000 ultimate net loss each occurrence	
Coverage	100% of $5,000,000 excess of $5,000,000 ultimate net loss each occurrence. In the event of loss under this coverage as well as a loss on another policy subject to the company's Multiple Line Excess of Loss or the Umbrella Liability Quota Share and Excess of Loss treaties, where the reinsurer's liability exceeds $10,000,000, the reinsurer's liability under this contract will be decreased proportionally so that mot more than $10,000,000 of liability is ceded to the reinsurer from any one loss occurrence.	

Warranty:	The company's maximum policy limits for Employers Liability is $1,000,000. Audit premiums booked and received after the close of any calendar year will be treated as earned premiums in the calendar year in which they are received.
Premium:	Annual premium $100,000
Reinstatement:	One at 100% additional premium
Effective date:	January 1, 2003
Termination:	As of any December 31, by either party giving 90 days' prior notice

7. Type: Umbrella Liability Quota Share and Excess of Loss Reinsurance

Reinsurers:	SCOR Reinsurance Company	50%
	Platinum Underwriters Reinsurance, Inc.	50%

Reinsured:	1st Auto Property and Casualty Insurance Company and Wisconsin Reinsurance Corporation
Scope:	Business classified by the company as Personal and Commercial Umbrella Liability as written on a direct basis by 1st Auto and Casualty Insurance Company or assumed under reinsurance contracts written by and on behalf of Wisconsin Reinsurance Corporation
Retention:	Quota Share 7.5% quota share of loss liability any one Umbrella policy, applicable for maximum Umbrella coverage risk of $2,000,000. Company retains 7.5% quota share of loss liability on $4,000,000 of insured Umbrella coverage risk any one loss occurrence Excess of loss $2,000,000 ultimate net loss each loss occurrence
Coverage:	Quota Share 92.5% quota share of loss liability any one Umbrella policy, applicable for maximum Umbrella coverage risk of $2,000,000, maximum reinsurer liability $1,850,000 any one policy. Reinsurer covers 92.5% quota share of loss liability on $4,000,000 of insured Umbrella coverage risk any one loss occurrence, maximum reinsurer liability $3,700,000 any one occurrence Excess of Loss 100% of the company's ultimate loss liability in excess of $2,000,000 each loss occurrence, reinsurer liability limited to 100% of $3,000,000 excess loss each loss occurrence
Premium:	Quota Share 92.5% of the Gross Original Premium for Umbrella business applicable to the first $2,000,000 of liability covered

Excess of Loss
100% of the Gross Original Premium for Umbrella business applicable to limits of liability over $2,000,000, always subject to Reinsurer's limit of liability of $3,000,000

Commissions:	27.5% commission on the net premium ceded or paid
Effective date:	January 1, 2003
Termination:	As of any December 31 by either party giving 90 days' prior notice
Warranties:	The company warrants that it will require the following minimum underlying policy limits:

Personal Auto	\$300,000/\$300,000/\$100,000 or \$250,000/\$500,000/\$100,000
CPL or FCPL	\$300,000 CSL or \$500,000 CSL
Recreational Vehicles	\$300,000/\$300,000/\$100,000 or \$250,000/\$500,000/\$100,000 or \$300,000 CSL or \$500,000 CSL
Commercial Auto	\$500,000 CSL
Commercial Liability	\$500,000 CSL

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2002, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Wisconsin Reinsurance Corporation
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$20,501,973		$20,501,973
Stocks:			
Common stocks	11,733,695		11,733,695
Real estate:			
Occupied by the company	1,115,836		1,115,836
Cash	258,818		258,818
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	3,723,756		3,723,756
Premiums, agents' balances, and installments booked but deferred and not yet due	984,210		984,210
Reinsurance recoverable on loss and loss adjustment expense payments	826,808		826,808
Federal and foreign income tax recoverable and interest thereon	2,480,014	$636,102	1,843,912
Electronic data processing equipment and software	153,686	41,913	111,773
Interest, dividends, and real estate income due and accrued	289,225		289,225
Receivable from parent, subsidiaries, and affiliates	270,702		270,702
Other assets nonadmitted:			
Furniture, equipment, and supplies	378,426	378,426	
Write-ins for other than invested assets:			
Cash surrender value--life insurance	148,084		148,084
Other accounts receivable	107,125	150	106,975
Total Assets	$42,972,358	$1,056,591	$41,915,767

Wisconsin Reinsurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Losses	$14,858,413	
Loss adjustment expenses	2,306,228	
Other expenses (excluding taxes, licenses, and fees)	42,599	
Taxes, licenses, and fees (excluding federal and foreign income taxes)	25	
Unearned premiums	6,144,563	
Ceded reinsurance premiums payable (net of ceding commissions)	535,138	
Amounts withheld or retained by company for account of others	515	
Provision for reinsurance	15,000	
Payable to parent, subsidiaries, and affiliates	44,192	
Write-ins for liabilities:		
Deferred compensation liability	85,845	
Total Liabilities		$24,032,518
Write-ins for special surplus funds:		
Common capital stock	5,156,000	
Preferred capital stock	6,494,000	
Unassigned funds (surplus)	6,278,809	
Less treasury stock, at cost:		
Common	45,560	
Surplus as Regards Policyholders		17,883,249
Total Liabilities and Surplus		$41,915,767

Wisconsin Reinsurance Corporation
Summary of Operations
For the Year 2002

Underwriting Income		
Premiums earned		$25,264,828
Deductions:		
Losses incurred	$18,105,284	
Loss expenses incurred	1,983,720	
Other underwriting expenses incurred	4,537,838	
Total underwriting deductions		24,626,842
Net underwriting gain		637,986
Investment Income		
Net investment income earned	1,105,508	
Net realized capital gains or (losses)	181,110	
Net investment gain or (loss)		1,286,618
Other Income		
Write-ins for miscellaneous income:		
Other income	5,213	
Total other income		5,213
Net income before federal and foreign income taxes		1,929,817
Federal and foreign income taxes incurred		1,040,613
Net Income		$ 889,204

Wisconsin Reinsurance Corporation
Cash Flow
For the Year 2002

Premiums collected net of reinsurance	$26,411,287		
Deduct:			
Loss and loss adjustment expenses paid (net of salvage or subrogation)	18,697,094		
Underwriting expenses paid	4,570,322		
Cash from underwriting		$3,143,871	
Net investment income		1,194,025	
Other income (expenses):			
Write-ins for miscellaneous items:			
Other income	5,213		
Total other income		5,213	
Deduct:			
Federal income taxes paid (recovered)		(139,427)	
Net cash from operations			$4,482,536
Proceeds from investments sold, matured, or repaid:			
Bonds	7,414,881		
Stocks	3,636,427		
Total investment proceeds		11,051,308	
Cost of investments acquired (long-term only):			
Bonds	12,067,912		
Stocks	2,983,882		
Real estate	10,835		
Total investments acquired		15,062,629	
Net cash from investments			(4,011,321)
Cash provided from financing and miscellaneous sources:			
Net transfers from affiliates	31,771		
Other cash provided	202,631		
Total		234,402	
Cash applied for financing and miscellaneous uses:			
Dividends to stockholders paid	227,850		
Net transfers to affiliates	65,419		
Borrowed funds repaid	145,548		
Other applications	297,486		
Total		736,303	
Net cash from financing and miscellaneous sources			(501,901)

Reconciliation

Net change in cash and short-term investments	(30,686)
Cash and short-term investments, December 31, 2001	289,504
Cash and short-term investments, December 31, 2002	$258,818

Wisconsin Reinsurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2002

Assets		$41,915,767
Less security surplus of insurance subsidiaries		5,484,325
Less liabilities		24,032,518
Adjusted surplus		12,398,924
Annual premium:		
Lines other than accident and health	$27,114,207	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		5,422,841
Compulsory surplus excess		$ 6,976,083
Adjusted surplus (from above)		$12,398,924
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		7,591,977
Security surplus excess		$ 4,806,947

Wisconsin Reinsurance Corporation
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2002

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2002	**2001**	**2000**	**1999**
Surplus, beginning of year	$20,160,973	$24,511,163	$25,734,857	$21,908,158
Net income	889,204	(3,953,262)	1,254,793	2,957,618
Net unrealized capital gains or (losses)	(3,010,423)	(1,021,330)	(1,957,086)	1,401,814
Change in net deferred income tax	639,513	546,536		
Change in non-admitted assets	(552,857)	(117,916)	(98,919)	8,650
Change in provision for reinsurance	(15,000)			
Cumulative effect of changes in accounting principles		424,315		
Capital changes:				
Transferred to surplus				(2,467,000)
Surplus adjustments:				
Transferred from capital				2,467,000
Dividends to stockholders	(227,850)	(227,850)	(422,190)	(541,110)
Change in treasury stock	(311)	(683)	(292)	(273)
Surplus, end of year	$17,883,249	$20,160,973	$24,511,163	$25,734,857

Wisconsin Reinsurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2002

The company's NAIC Insurance Regulatory Information System ("IRIS") results for the years under examination are summarized in the following table. Unusual IRIS results during the period are denoted with asterisks, and are discussed following the table of IRIS ratio data.

	Ratio	2002	2001	2000	1999
#1	Gross Premium to Surplus	194%	133%	105%	92%
#2	Net Premium to Surplus	152%	101%	74%	70%
#3	Change in Net Writings	33%*	12%	1%	2%
#4	Surplus Aid to Surplus	0%	0%	0%	0%
#5	Two-Year Overall Operating Ratio	109%*	113%*	87%	88%
#6	Investment Yield	3.4%*	3.8%*	4.1%	4%*
#7	Change in Surplus	_10%	-17%	-5%	17%
#8	Liabilities to Liquid Assets	83%	77%	63%	59%
#9	Agents' Balances to Surplus	21%	13%	9%	5%
#10	One-Year Reserve Devel. to Surplus	11%	3%	-4%	5%
#11	Two-Year Reserve Devel. to Surplus	9%	-3%	1%	-5%
#12	Estimated Current Reserve Def. To Surplus	30%*	-8%	-1%	13%

IRIS ratio # 3, Change in Net Writings, evaluates the year-to-year change in an insurer's net written premium. The company's unusual result in 2002 was due to growth of premiums written primarily due to rate increases that were enacted by the company's reinsured client base in 2002 which had the effect of increasing WRC's assumed premium.

IRIS ratio # 5, Two-Year Overall Operating Ratio, evaluates an insurer's profitability, and equals the loss ratio plus the expense ratio minus the investment income ratio. The company's unusual results in 2001 and 2002 were due to significant increases in incurred losses in 2001 and 2002 that resulted from severe windstorm losses sustained by the company's reinsured client companies. Also, in 2002, the company recorded approximately $2.1 million of reserve strengthening on assumed liability loss reserves.

IRIS ratio number 6, Investment Yield, evaluates the yield on investments that an insurer recognizes during an operating year as investment income and realized gains compared to annual average cash and total invested assets. The company's unusual results in each of the years under examination were due to the company having a substantial portion of its assets invested in its subsidiary insurer, 1st Auto & Casualty Insurance Company. 1st Auto did not pay dividends during the examination period, and its operating income was used to support premium growth and to build surplus during the five-year period. As of year-end 2002, WRC's investment in 1st Auto was valued at $5 million, and equaled 14.8% of WRC's total invested assets.

IRIS ratio #12, Estimated Current Reserve Deficiency to Surplus, evaluates the adequacy of an insurer's current reserves. The ratio considers current reserves relative to premium volume. The company's unusual result in 2002 arose due to the company recording $1.1 million of increased reserves.

Growth of Wisconsin Reinsurance Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2002	$41,915,767	$24,032,518	$17,883,249	$889,204
2001	40,760,550	20,599,577	20,160,973	(3,953,262)
2000	42,557,622	18,046,459	24,511,163	1,254,793
1999	43,436,386	17,701,530	25,734,857	2,957,618
1998	42,985,764	21,077,606	21,908,158	474,399

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2002	$34,662,511	$27,114,207	$25,264,828	79.5%	16.7%	96.2%
2001	26,713,804	20,429,884	20,134,516	119.5%	16.2%	135.7%
2000	25,810,217	18,179,052	18,430,878	88.0%	16.2%	104.2%
1999	23,777,372	18,080,853	18,237,359	69.2%	16.0%	85.2%
1998	23,368,444	17,688,721	17,920,299	94.5%	13.8%	108.3%

During the period under examination, the company's admitted assets decreased 2.5%, net premiums written increased 53.3%, and surplus decreased by 41.5%. Increased premiums written during the period were due to expanded business writings outside Wisconsin and, in 2002, significantly increased business ceded by client companies due to rate increases within the context of a hardening market for property and casualty business. The surplus decrease in 2001 was due to the impact of multiple severe wind and hail storms which resulted in 19 of the company's client insurers reaching their aggregate stop loss reinsurance retention, and corresponding significant property insurance losses sustained by the company. The surplus decrease in 2002 was due to $2.2 million aggregate reserve strengthening and to increased unearned premiums, expenses, and commissions recorded by the company related to the 2002 increase in premiums assumed by the company.

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus as regards policyholders between that reported by the company and as determined by this examination:

	Increase	Decrease	
Surplus December 31, 2002, per annual statement			$17,883,249
Federal income tax recoverable	$200,000	$0	
Net increase	$200,000		
Surplus December 31, 2002, per examination			$18,083,249

The examination did not result in any reclassifications of amounts reported in balance sheet accounts in the year-end 2002 statutory financial statements.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the previous examination report and actions taken by the company are as follows:

1. Affiliated Balances – It is recommended that the company not offset affiliated balances of one affiliate from other affiliates and that these amounts be properly reported on all future annual statements.

   Action—Compliance

2. Aggregate Write-Ins for Other Than Invested Assets – It is recommended that the company properly report, in accordance with the NAIC Annual Statement Instructions–Property/Casualty, state income tax amounts as Taxes, Licenses, and Fees on all future annual statements.

   Action—Compliance

3. Information Technology Environment – It is recommended that the company secure the computer room against unauthorized physical access.

   Action—Compliance

4. Information Technology Environment – It is recommended that the company require employes to change their passwords, at least on a quarterly basis.

   Action—Compliance

5. Information Technology Environment – It is recommended that the company more frequently review the number of failed system access attempts by employes in order to identify any problematic trends.

   Action—Compliance

6. Information Technology Environment – It is recommended that the company establish formal procedures for adding, changing, and deleting access by employes to its networks and applications and also perform periodic reviews of the current access allowed to determine if access allowed is commensurate with the employes job description.

   Action—Partial Compliance. Further comment and recommendation is included in the examination findings section of this report captioned “Information Technology.”

7. Disaster Recovery Plan – It is recommended that the company integrate the comments listed above when updating its Disaster Recovery Plan.

   Action—Partial Compliance. Further comment and recommendation is included in the examination findings section of this report captioned “Disaster Recovery Plan.”

Summary of Current Examination Results

Insurance Guarantee Liabilities

Examination review determined that WRC has issued endorsement certificates to mortgage lender creditors of town mutual insured policyholders to guarantee town mutual insurance policies. The guarantees are typically requested by mortgage lenders, who prefer that property insurance on mortgaged real estate be issued by an insurer that has a specified financial condition rating from a nationally recognized rating organization. Town mutual insurers are not assigned ratings by rating organizations because they do not use the NAIC annual statement blank for preparation of statutory financial statements. WRC is assigned a financial condition rating, and an insurance guarantee from WRC satisfies the bank's insurance rating underwriting standards. It should be noted that s. Ins 6.09 (5), Wis. Adm. Code, states that a person may not disapprove a town mutual insurance policy, pursuant to s. 628.34(5), Wis. Stat., based wholly or partly on the ground that the insurer does not have an acceptable rating with a rating service or publication.

WRC guarantees 100% of the policy liability of a given town mutual on a specified property in the event of the insolvency of the town mutual. In effect, the guarantees put WRC in the position and standing of the original issuing insurer, and the guarantees could be interpreted to elevate the guaranteed town mutual policies as having superior legal status to non-guaranteed policies in the event of the insolvency of the town mutual or WRC. During examination fieldwork, the company terminated issuance of new guarantee certificates, and the company's liability under existing certificates will expire at the end of the current policy coverage period for the respective guaranteed town mutual policies.

Examination review found that the company has inadequate accounts and records regarding the guarantees that it has issued. The guarantee certificates are issued at the request of the town mutual insurers. WRC does not perform underwriting review and maintains limited records on issued certificates. The company maintains certificate number, date of certificate, and name of town mutual insured client. The records do not indicate the bank to which a guarantee is issued, or the specifications of the subject guaranteed property risk.

The company provided a generalized disclosure in annual statement General Interrogatory 9 that it has issued guarantees, but did not make comprehensive disclosure as required by NAIC guidance. SSAP #5 provides that an insurer must disclose in annual statement Note 14 the nature of any loss contingency including an estimate of the possible loss or range of loss, or state that such an estimate can not be made. The company presently does not maintain detailed records of the guarantees issued, and is not able to fully identify, quantify, or make reasonable estimate of its contingent loss liability under the guarantees that it has issued. It is recommended that the company maintain adequate and sufficient accounts and records pertaining to insurance endorsement guarantees issued by the company, that the company monitor its liability exposure under the guarantees, and that the company make comprehensive disclosure in the notes to its statutory financial statements of the company's liability under its endorsement guarantees, as required by NAIC Accounting Practices and Procedures Manual SSAP #5.

Information Technology

Internal controls necessary to maintain the integrity of a business entity's information technology environment include establishment of formal procedures for the administration of employee access to company information systems. The formal procedures must establish required standards and practices regarding monitoring of individual user's authorization within the information technology environment, and must administer and document the adding, changing, and deletion of access of employees to company networks and applications. Proper administration of user access also requires that a business entity perform periodic reviews of the current access authorization status of user accounts, to determine if authorized access is commensurate with an employee's employment status, job description, and work assignments.

Examination review determined that the company has not developed a formal process to document IT access changes or the results of periodic reviews of IT access authorizations. The previous examination also noted the absence of adequate internal controls regarding employee access to the company's information technology systems, and recommended that the company address the noted deficiency. The company is in partial compliance with the previous recommendation. It is again recommended that the company establish formal procedures to administer adding, changing, and deleting the access authority of employees to the company's computer networks and applications, and that the company perform periodic reviews of the access authority status of user accounts to determine if access allowed to individual users is commensurate with users' respective work assignments and responsibilities.

Disaster Recovery Plan

The company has established contingency planning for the restoration of company data records and the resumption of company business operations in the event of business interruption. The examiners determined that there were deficiencies in the company's testing of its disaster recovery plan. The company did not document its testing of the IT portion of the disaster recovery plan, and did not perform testing of the non-IT portion of the plan. The previous examination also noted the deficiencies cited by the current examination, and recommended that the company address the noted deficiencies. The company is in partial compliance with the previous recommendation. It is again recommended that the company perform and formally document annual testing of its disaster recovery plan.

Business Planning

The company has not conducted comprehensive business planning to evaluate intermediate or long-term business strategies, and has not established a formal tactical or strategic business plan. Strategic business planning is a fundamental need for an insurer the size of the company, to inform the company's decision making and to actively direct the affairs of the company toward explicit business objectives. The company's business planning should entail the comprehensive evaluation of current and prospective business opportunities and risks, and should incorporate pro-forma quantitative analysis and modeling of company product mix, pricing, capital expenditure needs, and potential future financial performance under alternative planning initiatives and under a reasonable range of possible future business environments.

The company plans to establish working business planning groups and to initiate comprehensive business planning in 2004. The company's capability to engage in business planning has been constrained in the past due to limited employee staff and quantitative analysis resources, but the company has recently taken steps to add needed senior staff members and to provide analytical resources needed to perform planning activities. It is recommended that the company engage in substantive business planning activities and that the company develop and adequately document a comprehensive strategic business plan.

Federal Income Tax Assets

The company reported aggregate federal tax assets (including net deferred tax assets) of $1,843,912 in its year-end 2002 statutory financial statements. Subsequent to filing its 2002 Federal income tax return with the Internal Revenue Service, the company determined that the original tax return was in error and had failed to include $200,000 of additional carry back credits available to the company due to its net operating loss sustained in 2001. The company filed an amended 2002 Federal income tax return in 2003 and claimed the additional tax credit amounts.

The company's revised tax credits increased reported year-end 2002 federal tax assets and company surplus by $200,000. The $200,000 increase of reported 2002 assets was disclosed by the company in its first quarter 2003 financial statements as a write-in prior period correction to surplus. The first quarter 2003 financial statements also provided disclosure regarding the nature of the correction in the Notes to Financial Statements. Examination review of company tax accounting documentation concurred with the company's correction, and the examination made an adjustment of $200,000 to increase reported tax assets and company surplus as of December 31, 2002.

Capital Stock Disclosures

Examiners reviewed the presentation of the company's Policyholder Surplus section of its balance sheet. The total amount reported for Policyholder Surplus is correct. Since the date of the company's demutualization, the company reported "Capital stock" of $2,000,000. According to SSAP #72, "Surplus and Quasi-Reorganizations", the "Capital stock" should be valued at the number of shares multiplied by the par value or stated value, with the amount of capital received in excess of par value or stated value reported as "Gross paid-in and contributed surplus". The same situation applied to the reporting of "Preferred stock." The company replied to general interrogatory #17 consistent with its balance sheet presentation.

The reported and corrected data for the company's surplus accounts and for capital funds received from issuance of common and preferred stock as of December 31, 2002, is reflected in the following table:

	Reported Capital Funds	**Corrected Capital Funds**
Common Capital Stock	$ 5,156,000	$ 397,568
Preferred Capital Stock	6,494,000	6,494
Gross Paid-in and Contributed Surplus	0	13,884,423
Unassigned funds	6,478,809	3,840,324
Less: Treasury stock	45,560	45,560
Total Surplus	$18,083,249	$18,083,249

NAIC Accounting Practices and Procedures Manual # 72 provides that "Capital stock" represents the number of shares issued times the par value per share, and the financial statement caption "Gross paid-in and contributed surplus" represents the amount of capital received in excess of the par value of issued capital stock. The reported and corrected data for the company's surplus accounts and for capital funds received from issuance of common and preferred stock as of December 31, 2002 is reflected in the following table:

	Reported Capital Funds	**Corrected Capital Funds**
Common Capital Stock	$ 5,156,000	$ 397,568
Preferred Capital Stock	6,494,000	6,494
Gross Paid-in and Contributed Surplus	0	13,884,423
Unassigned funds	6,478,809	3,840,324
Less: Treasury stock	45,560	45,560
Total Surplus	$18,083,249	$18,083,249

It is recommended that the company correctly report capital stock par values, and properly report capital and surplus balances using appropriate statutory annual statement convention captions, in compliance with NAIC Accounting Practices and procedures Manual SSAP #72.

VIII. CONCLUSION

Wisconsin Reinsurance Corporation is a Wisconsin domiciled property and casualty insurer. Effective January 1, 1991, the company converted to a stock insurance company as permitted under s. 611.76, Wis. Stat. WRC organized and incorporated 1st Auto & Casualty Insurance Company as a wholly-owned operating insurance subsidiary in 1991.

The company's primary business is the provision of various programs of property and liability reinsurance on risks written by small mutual property and casualty insurers. The company also reinsures a portion of business written by its subsidiary 1st Auto, comprised primarily of personal lines automobile insurance coverages.

The company experienced significant losses in 1998, 2000, and 2001, due in part to catastrophic weather events that occurred in its territory, deficient underwriting standards of some client companies, and insufficient premium rates charged by some of the reinsured clients (WRC's property reinsurance premium revenues are a function of the premium rate structures of its client companies). WRC underwriting losses and unrealized capital losses gave rise to surplus decreases in 2000, 2001, and 2002, resulting in decreased per-share fair value of WRC common capital stock and a corresponding reduction of valuation of the client companies' WRC stock investments. WRC implemented an ongoing corrective program during the examination period, and actively works with its client companies both to improve the underwriting performance of clients and to assist client insurers in establishing appropriate premium rate schedules for their products.

The current examination did not result in reclassification of account balances, but did result in one account adjustment of admitted Federal income tax assets that increased surplus as reported by the company by $200,000. The examination determined that the company was in compliance with five of the seven recommendations made by the previous examination. The current examination resulted in five recommendations, two of which were repeated from the previous examination. The examination determined that, as of December 31, 2002, the company had total admitted assets of $42,115,767, total liabilities of 24,032,518, and policyholders surplus of $18,083,247.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 40 - Insurance Guarantee Liabilities—It is recommended that the company maintain adequate and sufficient accounts and records pertaining to insurance endorsement guarantees issued by the company, that the company monitor its liability exposure under the guarantees, and that the company make comprehensive disclosure in the notes to its statutory financial statements of the company's liability under its endorsement guarantees, as required by NAIC Accounting Practices and Procedures Manual SSAP # 5.

2. Page 41 - Information Technology—It is again recommended that the company establish formal procedures to administer adding, changing, and deleting the access authority of employees to the company's computer networks and applications, and that the company perform periodic reviews of the access authority status of user accounts to determine if access allowed to individual users is commensurate with users' respective work assignments and responsibilities.

3. Page 41 - Disaster Recovery Planning—It is again recommended that the company perform and formally document annual review, updating, and testing of its disaster recovery plan.

4. Page 42 - Business Planning—It is recommended that the company engage in substantive business planning activities and that the company develop and adequately document a comprehensive strategic business plan.

5. Page 43 - Capital Stock Disclosures—It is recommended that the company correctly report capital stock par values, and properly report capital and surplus balances using appropriate statutory annual statement convention captions, in compliance with NAIC Accounting Practices and Procedures Manual SSAP # 72.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance (OCI), State of Wisconsin, participated in the examination:

Name	Title
Sarah Haeft	Insurance Financial Examiner
Mark Knievel	Insurance Financial Examiner
Jean Suchomel	Insurance Financial Examiner
Randy Milquet	Advanced Financial Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge

XI. ADDENDUM

Catastrophe Excess of Loss Reinsurance

Layer	Assuming Company	Percentage	
First Layer			
Domestic Placements:			
	Arch Reinsurance Company	7.50%	
	Farm Family Casualty Insurance Company	1.00	
	Platinum Underwriters Re, Inc.	4.00	
	Subtotal - Domestic		12.50%
International Placements through BMS Collins, Ltd.:			
	Lloyd's Underwriters, London as follows:		
	Syndicate 2010-MMX	9.75	
	Syndicate 2987-BRT	2.00	
	Syndicate 0566-STN	9.75	
	Syndicate 0958-GSC	9.50	
	Syndicate 0570-ATR	2.00	
	Syndicate 2147-SVB	6.00	
	Syndicate 2001-AML	9.75	
	Syndicate 1414-RTH	2.00	
	Syndicate 0435-FDY	10.00	
	Syndicate 2791-MAP	9.50	
	Syndicate 0780-ADV	5.00	
	Syndicate 1096-RAS	5.00	
	Syndicate 3000-MKL	5.50	
	Syndicate 2488-AGM	1.75	
	Subtotal -Lloyd's		87.50%
	Total Placements		100.00%

Second Layer

Domestic Placements:

American Agricultural Insurance Company	3.00%	
Farm Family Casualty Insurance Company	2.00	
MSI Re Management, Inc.	2.00	
PXRE Reinsurance Co	5.00	
Platinum Underwriters Insurance, Inc.	5.00	
Subtotal - Domestic		17.00%

International Placements through BMS Collins.:

Lloyd's Underwriters, London as follows:

Syndicate 2010-MMX	9.50%	
Syndicate 2987-BRT	3.50	
Syndicate 0958-GSC	7.25	
Syndicate 0626-IRK	1.00	
Syndicate 0570-ATR	1.50	
Syndicate 2147-SVB	6.00	
Syndicate 2001-AML	9.50	
Syndicate 1414-RTH	2.00	
Syndicate 0435-FDY	9.50	
Syndicate 2791-MAP	7.25	
Syndicate 1096-RAS	5.00	
Syndicate 3000-MKL	3.00	
Syndicate 2488-AGM	4.00	
Subtotal - Lloyd's		69.00%

Other Placements:

Odyssey America Reinsurance Corp. (UK)	7.00%	
Societe Parisienne de Souscription Re	2.00	
Wellington Re	5.00	
Subtotal - Other		14.00%
Total Placements		100.00%

Third Layer

Domestic Placements:			
	American Agricultural Insurance Company	3.00%	
	Farm Family Casualty Insurance Company.	1.25	
	MSI Re Management, Inc.	2.00	
	PXRE Reinsurance Company	2.50	
	Platinum Underwriters Insurance, Inc.	5.00	
	Subtotal - Domestic		13.75%
International Placements through BMS Collins			
	Lloyd's Underwriters, London as follows:		
	Syndicate 2010-MMX	9.00%	
	Syndicate 2987-BRT	4.00	
	Syndicate 0958-GSC	7.00	
	Syndicate 0626-IRK	4.00	
	Syndicate 0570-ATR	1.50	
	Syndicate 2147-SVB	6.00	
	Syndicate 2001-AML	9.00	
	Syndicate 1414-RTH	2.00	
	Syndicate 1435-FDY	9.00	
	Syndicate 2791-MAP	6.50	
	Syndicate 0780-ADV	4.00	
	Syndicate 1096-RAS	4.00	
	Syndicate 3000-MKL	2.00	
	Syndicate 2488-AGM	6.00	
	Subtotal - Lloyd's		74.00%
Other Placements:			
	Odyssey America Reinsurance Corp. (UK)	3.00	
	Societe Parisienne de Souscription Re	1.00	
	Wellington Re	6.00	
	Subtotal - Other		10.00%
Other International Placements			
	Hannover Reinsurance (Bermuda) Ltd.	2.25%	
	Subtotal – Other Int.		2.25%
	Total Placements		100.00%

Fourth Layer

International Placements through BMS Collins.:

Lloyd's Underwriters, London as follows:

Syndicate 2010-MMX	12.75%	
Syndicate 2987-BRT	8.50	
Syndicate 0958-GSC	8.50	
Syndicate 0626-IRK	10.00	
Syndicate 0570-ATR	2.00	
Syndicate 2147-SVB	3.75	
Syndicate 2001-AML	10.00	
Syndicate 1414-RTH	2.00	
Syndicate 0435-FDY	10.00	
Syndicate 2791-MAP	6.25	
Syndicate 0780-ADV	8.50	
Syndicate 1096-RAS	3.75	
Syndicate 2488-AGM	3.75	
Subtotal - Lloyd's		89.75%

Other Placements:

Wellington Re	8.00%	
Subtotal - Other		8.00%

Other International Placements

Hannover Reinsurance (Bermuda) Ltd.	2.25%	
Subtotal – Other Int.		2.25%
Total Placements		100.00%